

## Studentbostäder i Norden AB (publ)

Full Rating Report

## LONG-TERM RATING

**B+**

## OUTLOOK

**Negative**

## SHORT-TERM RATING

**N5**

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## RATING RATIONALE

Our 'B+' long-term issuer rating on Sweden-based property manager Studentbostäder i Norden AB (publ) reflects the company's small portfolio, high geographic concentrations, and weak financial ratios. It also reflects a material risk that the company could breach an interest-coverage maintenance covenant on an outstanding bond. In addition, the rating reflects a focus on project development, which increases risk in comparison with pure property management. The rating further reflects Studentbostäder's below-average operating efficiency, although we expect this will improve over the next few years. We view the company's brief operating history (founded in 2018) and limited track record as credit weaknesses.

These weaknesses are partly offset by strong demand for student accommodation; many of Studentbostäder's operating locations have significant supply shortages. Although we view geographic concentration as material, we see negligible tenant concentrations as a credit strength, and take a positive view of the company's efforts to reduce project risk.

## NEGATIVE OUTLOOK

The outlook is negative, reflecting an increased likelihood that Studentbostäder could breach a 1.5x interest-coverage maintenance covenant on an outstanding bond. Without mitigating action, we project that the company will breach the covenant in late 2023. In our view, the company is committed to reducing the likely negative impact on its credit metrics through cost reductions and loan refinancing, as well as possible equity injections and property divestments. However, we are currently uncertain about the company's profitability and ability to divest and deleverage as well as the future course of market interest rates.

A covenant breach could negatively affect the company's ability to refinance its maturing debt. Increased liquidity risk could result in a multi-notch downward rating revision. In addition, we project a decline in property values over the next few years, which could put pressure on loan-to-value (LTV) and equity ratio covenants. However, the timing and magnitude are uncertain due to a lack of transactions.

## DRIVERS FOR A STABLE OUTLOOK

- Increased covenant headroom.
- Significant deleveraging due to, for example, equity injections or asset divestments.
- Reduced liquidity risk and refinancing risk.

## POTENTIAL NEGATIVE RATING DRIVERS

- Deteriorating liquidity or increasing refinancing risk.
- Actual breach of covenants.
- Distressed exchange or request to modify existing bond terms.

Figure 1. Studentbostäder key credit metrics, 2018–2024e

| SEKm                             | 2018  | 2019  | 2020  | 2021  | 2022e | 2023e | 2024e |
|----------------------------------|-------|-------|-------|-------|-------|-------|-------|
| Rental income                    | 19    | 102   | 148   | 209   | 284   | 376   | 443   |
| NCR-adj. EBITDA                  | 3     | 40    | 64    | 103   | 135   | 207   | 248   |
| NCR-adj. EBITDA margin (%)       | 16.2  | 39.1  | 42.4  | 44.0  | 47.4  | 55.0  | 56.0  |
| NCR-adj. investment property     | 894   | 2,098 | 3,573 | 5,649 | 7,531 | 7,064 | 6,630 |
| NCR-adj. net debt                | 630   | 1,430 | 1,835 | 3,555 | 4,970 | 5,586 | 5,537 |
| NCR-adj. total assets            | 925   | 2,154 | 3,921 | 5,935 | 7,817 | 7,332 | 6,948 |
| NCR-adj. net debt/EBITDA (x)     | 207.7 | 35.8  | 28.8  | 34.5  | 36.9  | 27.0  | 22.3  |
| NCR-adj. EBITDA/net interest (x) | 1.0   | 1.9   | 2.1   | 1.6   | 1.6   | 1.3   | 1.3   |
| NCR-adj. net LTV (%)             | 70.5  | 68.2  | 51.4  | 62.9  | 66.0  | 79.1  | 83.5  |
| NCR-adj. FFO/net debt (%)        | (0.1) | 1.1   | 1.5   | 1.1   | 1.0   | 0.7   | 0.9   |

Based on NCR estimates and company data. e–estimate. FFO–funds from operations. All metrics adjusted in line with NCR methodology.

**ISSUER PROFILE**

Studentbostäder owns, develops, and manages student housing properties in the Nordic countries. As of 30 Sep. 2022, the portfolio comprised 5,141 student apartments under management, totalling 139,000 sqm of lettable area valued at SEK 6.4bn. Since the end of the third quarter, the company has acquired a residential property in Copenhagen with 290 apartments (valued at SEK 740m), taking it closer to its target of 10,000 apartments under management by 2025. Studentbostäder was established in 2018, when it acquired student housing properties from Samhällsbyggnadsbolaget i Norden AB (publ) (SBB), Amasten Fastighets AB and Offentliga Hus i Norden AB (publ). As of 30 Sep. 2022, the largest shareholder was Aktiebolaget Fastator AB (publ). Studentbostäder's common shares have been listed on the Nasdaq First North Premier Growth Market since 2020.

**BUSINESS RISK ASSESSMENT**

Business risk assessment 'bb+'

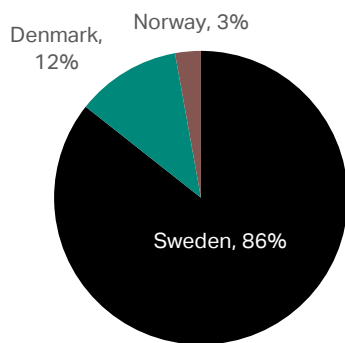
Our business risk assessment reflects Studentbostäder's small property portfolio focusing on a property subsector which benefits from a strong operating environment due to regulated rents and a shortage of supply. Although tenant concentrations are insignificant, the portfolio is concentrated in just a few university cities leading to dependence on the ability of the respective universities to attract students. Our assessment is constrained by a large project development pipeline, which increases risk.

Operating environment 'bbb+'

**Strong demand, regulated rents and long waiting lists create favourable operating environment**

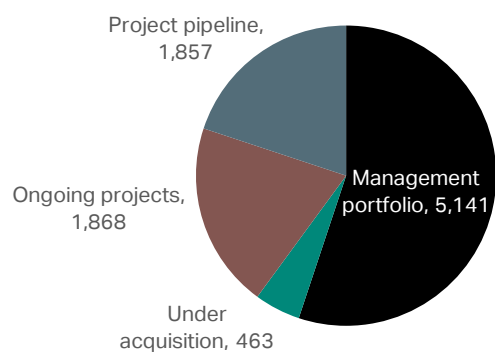
Studentbostäder's property portfolio is focused on student accommodation which generates virtually all of the company's rental value. The portfolio is primarily focused on Swedish university cities, with increasing exposure to other Nordic countries. The Nordic student housing market is characterised by limited supply and long waiting lists for affordable accommodation. In addition, the Swedish market benefits from regulated rents. According to a report by the Swedish National Union of Students, most of Studentbostäder's student apartments are in locations characterised by student housing shortages, supporting underlying demand for the company's properties.

Figure 2. Studentbostäder rental value by area, 30 Sep. 2022



Source: company.

Figure 3. Studentbostäder property portfolio by number of apartments, 30 Sep. 2022



Source: company.

From 2017 to 2021, the Swedish government supported developers of rental apartments and student housing. However, in November 2021 parliament decided to abolish support grants for developers, while grandfathering development projects for which grant applications were submitted before end-2021. Studentbostäder has several eligible projects which will likely receive grants, improving project margins and providing liquidity upon completion.

Studentbostäder's high proportion of project development weighs negatively on our assessment of business risk. Although we view efforts to reduce construction and project risk as positive, we believe that unpredicted changes to plans such as delays or issues with subcontractors could negatively affect the company's liquidity position and credit metrics. Strong competition and uncertain access to financing further increase cyclicity in the development industry. The operating environment therefore involves greater risk for Studentbostäder than for pure portfolio managers.

We view Studentbostäder's diverse exposure by municipality as positive but note that some of the largest municipalities of operation have weak projected population growth and poor employment

prospects (see Figure 4). However, we believe that the risk of declining demand is partly offset by the stability of the residential subsector and the fact that several properties are located close to universities.

**Figure 4. Studentbostäder rental value from top 10 municipal exposures, 30 Sep. 2022**

| Municipality                | Share of rental value | Population, 2021 | Expected population change among 15–64-year-olds, 2021–2040 | Unemployment, 2021 |
|-----------------------------|-----------------------|------------------|---|--------------------|
| Luleå                       | ~20%                  | 79,000           | -0.7%   | 6.4%               |
| Stockholm                   | >10%                  | 979,000          | 10.2%   | 7.6%               |
| Copenhagen                  | >10%                  | 805,000          | 12.2%*  | 5.5%               |
| Malmö                       | <10%                  | 352,000          | 14.5%   | 14.4%              |
| Karlstad                    | <10%                  | 95,000           | 3.9%  | 7.9%               |
| Gothenburg                  | <10%                  | 588,000          | 10.1%   | 8.9%               |
| Ronneby                     | >5%                   | 29,000           | -6.6%   | 12.6%              |
| Jönköping                   | >5%                   | 144,000          | 10.2%   | 5.9%               |
| Karlskrona                  | <5%                   | 67,000           | -3.6%   | 8.0%               |
| Kristianstad                | <5%                   | 87,000           | 4.0%  | 10.7%              |
| <b>Total/Sweden average</b> | <b>-</b>              | <b>-</b>         | <b>5.9%</b>   | <b>7.9%</b>        |

Source: company, Statistics Sweden, the Swedish Public Employment Service (Arbetsförmedlingen), Statistics Denmark. \*Based on all ages.

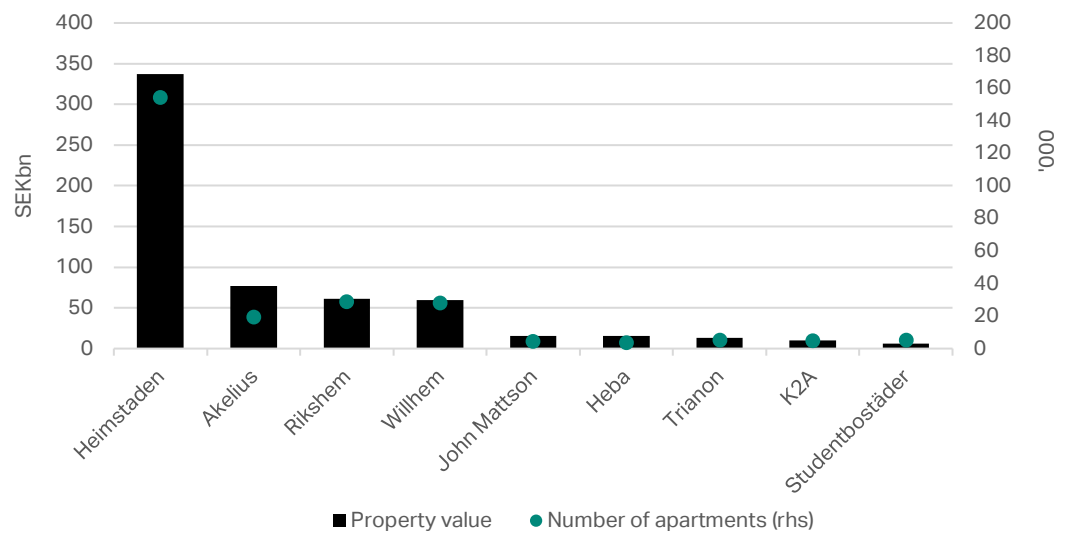
#### **Tenant concentrations low, but geographic concentrations high**

As of 30 Sep. 2022, Studentbostäder's property portfolio comprised 5,141 student apartments under management valued at SEK 5.4bn. Including completed acquisitions, the portfolio comprised 5,431 apartments. In addition to management properties, the company's project development and acquisition pipeline includes 4,188 apartments, of which 1,868 are under construction. Studentbostäder's portfolio is small in comparison with those of its Nordic real-estate peers which tend to focus on residential properties. We note, however, that the Nordic student housing markets are characterised by numerous local players. In Sweden, most student apartments are owned by foundations or municipal real estate companies, while less than 20% are owned by private companies.

According to Statistics Sweden, the number of student apartments in Sweden was estimated at about 108,000 at end-2021. We estimate that Studentbostäder has a market share of about 5%. Although the figure is low, Studentbostäder is specialised within this area and we expect it to grow both through acquisitions and project development. We also believe the company is well placed to create a strong niche position for itself over time.

Market position, size and diversification 'b+'

Figure 5. Studentbostäder peer group breakdown by property value and lettable area, 30 Sep. 2022



Source: companies.

Studentbostäder's focus on residential properties results in negligible tenant concentrations, supporting our view of revenue diversity. However, in terms of geographic diversity, the portfolio is concentrated. Luleå accounts for 25% of rental value, followed by Stockholm and Copenhagen, which contribute 12% each. Although the geographic concentrations are high, the properties' proximity to universities supports demand and reduces risk. Nevertheless, we assess the company's dependence on individual university populations as a weakness. Studentbostäder's largest single property accounts for 12% of rental value, while the 10 largest properties account for 58%, indicating relatively high dependence on single properties.

**Locations mixed, while project development pipeline remains substantial**

Studentbostäder's properties are mainly located in university cities. We view the attractiveness of the locations as mixed. Some properties, such as most of those in Luleå, are strategically located close to the local university, which supports demand. Other properties, such as those in Oxie outside Malmö and Ronneby outside Karlskrona, are in less strategic locations where demand would likely be at risk if supply of alternative student accommodation were to increase. We expect completion of development projects to improve the average attractiveness of the company's property locations.

Studentbostäder's properties are typically space-efficient apartments averaging 29 sqm. The average property age is less than 20 years. We expect both the average apartment size and property age to decrease as the company completes its project development pipeline. We view the relatively young portfolio as a rating strength, implying relatively low refurbishment needs in the near term.

Typically, lease contracts for student housing are for three months, leading to an average remaining lease-term that is extremely short compared with those of real-estate peers focused on other property types, but similar to levels common among other residential property managers. We believe that the strong demand for student accommodation limits vacancy risk despite the high tenant turnover that is customary with student apartments.

As of 30 Sep. 2022, the company had a substantial project development portfolio of 3,725 apartments with combined budgeted investments of SEK 4.4bn. The development pipeline represents a significant proportion of the total portfolio of 7,737 apartments, while Studentbostäder targets production start of 700–1,000 apartments a year. We view the company's significant development focus negatively in our overall portfolio assessment as it creates additional risk. Positively, project and construction risk are offset by fixed turn-key construction contracts, which increase predictability, while all projects on which production has not commenced consist of cash-flow generative properties. Although Studentbostäder's development projects are standardised, we note that the company has a limited track record in project development.

Portfolio assessment  
'bb+'

Figure 6. Studentbostäder larger projects in progress, 30 Sep. 2022

| Project          | Location   | Number of apartments (gross) | Lettable area (sqm) | Invested (SEKm) | Total investment (SEKm) | Estimated completion |
|------------------|------------|------------------------------|---------------------|-----------------|-------------------------|----------------------|
| Vikingen 1       | Jönköping  | 419                          | 11,197              | 426             | 426                     | 2022                 |
| Mungigan 1       | Karlstad   | 208                          | 5,570               | 232             | 237                     | 2022                 |
| Ferdinand 14, 15 | Stockholm  | 1,043                        | 20,997              | 501             | 1,445                   | 2023–2024            |
| Ankarstocken 27  | Norrköping | 198                          | 4,750               | 156             | 260                     | 2023                 |
| <b>Total</b>     | <b>-</b>   | <b>1,868</b>                 | <b>42,514</b>       | <b>1,315</b>    | <b>2,368</b>            | <b>-</b>             |

Source: company.

**Occupancy varies over the academic year**

As of 30 Sep. 2022, Studentbostäder's EBITDA margin on a rolling 12-month basis was 46%, up from 39–44% in 2019–2021. In our forecast through 2024, we expect an EBITDA margin of 47% in 2022, rising gradually to 56% in 2024, primarily due to higher margins from acquired and newly finalised properties. Operating margins are improving but remain low, while the ability to pass on inflation and rising interest costs is limited.

As with other residential property types, student housing vacancy rates are typically low, although they show clear seasonal patterns which reflect the academic year. As of 30 Sep. 2022, the company's occupancy rate was as high as 99.7%, up from 92% a quarter earlier. At the height of the COVID-19 pandemic, occupancy bottomed at 85% in mid-2021 as many students studied remotely. Over our forecast period through 2024, we expect occupancy to fluctuate between 90% and 100% in a given academic year, but nevertheless average close to 100%.

Operating efficiency 'bb+'

Figure 7. Studentbostäder revenues, net operating income, EBITDA, and margins, 2018–2024e

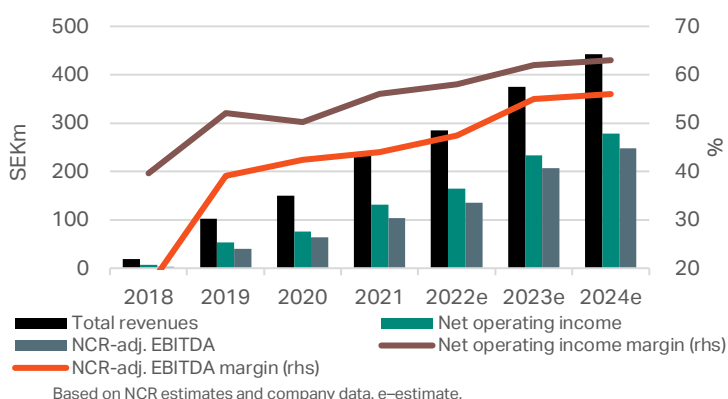
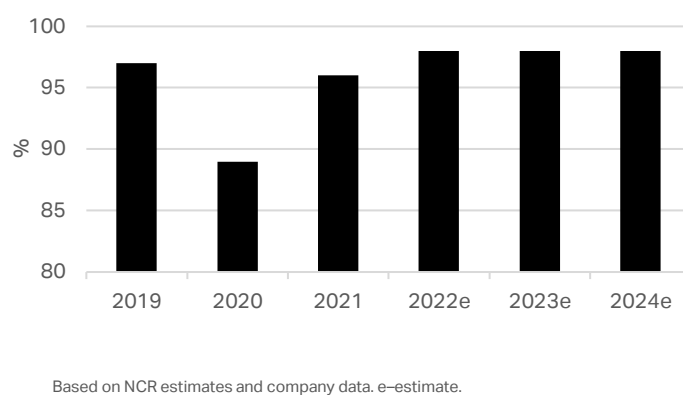


Figure 8. Studentbostäder occupancy rate, 2019–2024e



Financial risk assessment 'b-'

**FINANCIAL RISK ASSESSMENT**

Our financial risk assessment reflects our expectation that Studentbostäder's key credit metrics will weaken. We expect the company's net LTV ratio to remain high in comparison with those of its real-estate peers, while interest coverage and net debt/EBITDA are likely to remain weak due to limited cash flows and a focus on project development. We view the company's financial risk appetite as commensurate with our ratio analysis, although we view its aggressive growth plans, short debt maturity profile, and limited interest coverage covenant headroom as credit weaknesses. We also address the increasing risk of a covenant breach by lowering the rating by one notch through a "peer adjustment".

**Covenant breach likely without mitigating action**

Over the past year, Studentbostäder's NCR-adjusted net LTV has been maintained at around 63%, while NCR-adjusted net interest coverage has been between 1.6–1.7x. The company's net debt/EBITDA has been weak, averaging 30–35x due to high financial leverage, rapid growth and a lag in earnings generation due to a strong focus on project development. We also expect rising interest rates to have a negative impact on interest costs. We expect property yields to widen, with a negative impact on

Ratio analysis 'b-'

property valuations. This is likely to be only partly offset by higher-than-usual rent increases and finalised projects. Consequently, we believe that the company will likely breach its debt covenants in 2023 without mitigating action.

In our calculation of Studentbostäder's credit metrics, we treat shareholder loans from SBB as debt (SEK 199m as of 30 Sep. 2022). Our 2021 EBITDA adjustment reflects SEK 8.3m in non-recurring costs associated with the acquisition of Prime Living AB (publ) and a non-recurring tax agency claim of SEK 17.5m related to Prime Living's operations in 2016–2020. In our forecast, we assume that the company will receive investment grants, but note that this assumption carries some uncertainty and that failure to obtain such contributions could have a negative impact on metrics. Our 2022 EBITDA and interest adjustments relate to the company's changed accounting policies for costs arising from development projects.

In our base-case forecast of Studentbostäder's future performance, we assume:

- rental income growth of 36% in 2022, 32% in 2023, and 18% in 2024;
- an EBITDA margin of 47% in 2022, gradually increasing to 56% in 2024;
- investments in properties through acquisitions, development and refurbishment of SEK 1.8bn in 2022, SEK 735m in 2023, and zero in 2024;
- increased interest rates, resulting in average interest rates on debt of 2.1% in 2022, 3.6% in 2023, and 4.0% in 2024;
- property value changes of 0% in 2022, minus 16% in 2023, and minus 6% in 2024; and
- receipt of net government investment grants of SEK 158m in 2022 and SEK 92m in 2023.

On the basis of these assumptions, we estimate the following metrics for 2022–2024:

- NCR-adjusted net LTV of 66% in 2022, increasing to 84% in 2024 as property values fall;
- NCR-adjusted EBITDA/net interest of 1.6x in 2022, weakening to 1.3x in 2023–2024; and
- NCR-adjusted net debt/EBITDA of 22–37x.

**Figure 9. NCR's adjustments to Studentbostäder's credit metrics, 2018–2024e**

| SEKm                            | 2018 | 2019  | 2020  | 2021  | 2022e | 2023e | 2024e |
|---------------------------------|------|-------|-------|-------|-------|-------|-------|
| EBITDA                          | 3    | 40    | 64    | 77    | 129   | 207   | 248   |
| Non-recurring and other items   |      |       |       | 26    | 5     | 0     | 0     |
| NCR-adj. EBITDA                 | 3    | 40    | 64    | 103   | 135   | 207   | 248   |
| Net interest                    | -3   | -21   | -30   | -62   | -95   | -163  | -195  |
| Financial costs from leasing    |      | 0     |       | -1    | -1    | -1    | -1    |
| Other interest adjustment       |      |       |       |       | 14    | 0     | 0     |
| NCR-adj. net interest           | -3   | -21   | -30   | -64   | -83   | -164  | -196  |
| NCR-adj. EBITDA                 | 3    | 40    | 64    | 103   | 135   | 207   | 248   |
| NCR-adj. net interest           | -3   | -21   | -30   | -64   | -83   | -164  | -196  |
| Current tax                     | -1   | -4    | -6    | -0    | -4    | -3    | -2    |
| NCR-adj. FFO                    | -1   | 15    | 27    | 39    | 49    | 39    | 49    |
| Investment property             | 894  | 2,091 | 3,563 | 5,636 | 7,515 | 7,048 | 6,615 |
| Non-current right-of-use assets |      | 7     | 10    | 13    | 16    | 16    | 16    |
| NCR-adj. investment property    | 894  | 2,098 | 3,573 | 5,649 | 7,531 | 7,064 | 6,630 |
| Cash and equivalents            | 4    | 46    | 296   | 205   | 117   | 99    | 148   |
| Restricted cash                 |      |       | -1    |       | 0     | 0     | 0     |
| NCR-adj. cash and equivalents   | 4    | 46    | 295   | 205   | 117   | 99    | 148   |
| Gross interest-bearing debt     | 475  | 1,309 | 1,955 | 3,587 | 4,872 | 5,470 | 5,470 |
| Shareholder loans               | 160  | 160   | 160   | 160   | 199   | 199   | 199   |
| Long-term leasing liabilities   | 0    | 7     | 15    | 13    | 16    | 16    | 16    |
| NCR-adj. cash and equivalents   | -4   | -46   | -295  | -205  | -117  | -99   | -148  |
| NCR-adj. net debt               | 630  | 1,430 | 1,835 | 3,555 | 4,970 | 5,586 | 5,537 |

Based on NCR estimates and company data. e—estimate.

Figure 10. Studentbostäder NCR-adj. investment properties, net debt, and net LTV, 2018–2024e

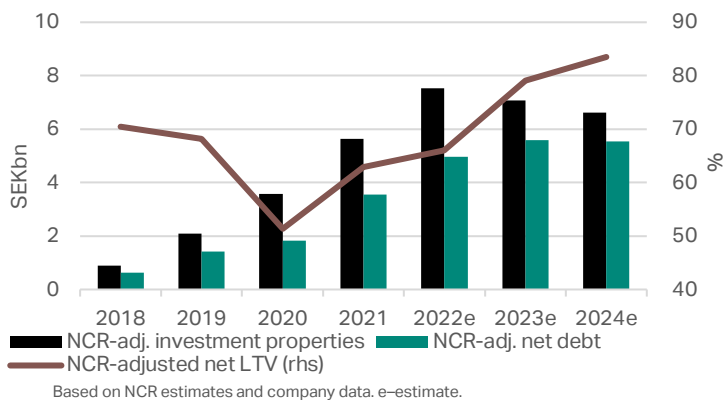
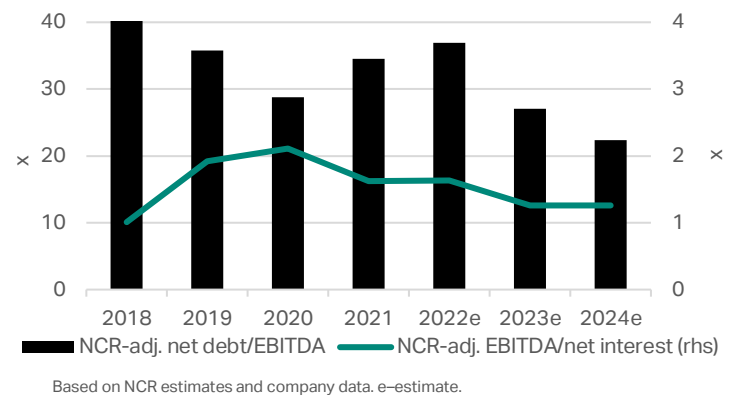


Figure 11. Studentbostäder NCR-adj. net debt/EBITDA and EBITDA/net interest, 2018–2024e



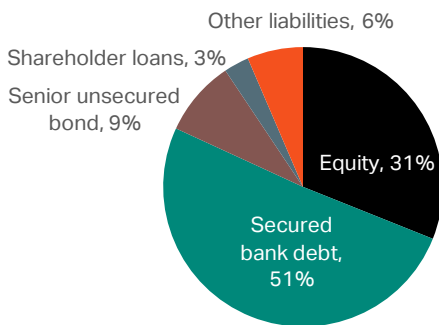
**Limited covenant headroom, high growth and short debt maturity profile increase financial risk**

Risk appetite 'b-'

We view Studentbostäder's financial risk appetite as commensurate with the company's financial ratios, although we consider its limited covenant headroom, ambitious growth plans and short debt maturity profile as negative rating factors. The assessment is also constrained by Studentbostäder's relatively brief operating history and lack of unutilised credit facilities.

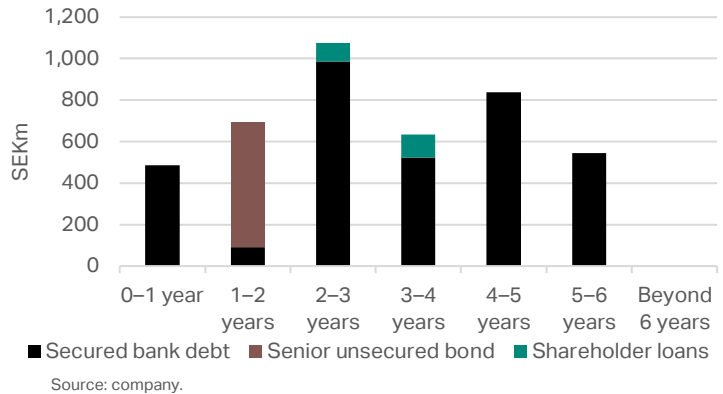
Since Studentbostäder was founded in 2018, its property portfolio has grown rapidly, and stood at SEK 6.4bn as of 30 Sep. 2022. We expect the company to further prioritise growth to achieve a target of 10,000 apartments under management by 2025 (compared with 5,141 currently).

Figure 12. Studentbostäder funding profile, 30 Sep. 2022



Source: company.

Figure 13. Studentbostäder debt maturity profile, 30 Sep. 2022



Source: company.

As of 30 Sep. 2022, Studentbostäder's average debt maturity was 3.1 years while 12% of its debt was set to mature within the subsequent 12 months. We view the company's relatively short debt maturity profile and relatively large single-year concentrations as negative factors in our financial risk assessment. In our view, a SEK 600m bond maturing in May 2024 could become a concern as the maturity date approaches. We expect the company to refinance this instrument proactively, but believe a covenant breach would increase refinancing risk materially. We note that the bond is callable, with a first call date on 13 May 2023. Studentbostäder currently has no revolving credit facilities. If obtained, such facilities would support liquidity. The company uses interest rate swaps to reduce interest rate risk. As of 30 Sep. 2022, the average fixed interest period was 1.6 years, with 63% of interest rate maturities falling in the subsequent 12 months. This low degree of interest fixing leaves the company more exposed to rising interest rates than many of its peers. As a consequence of rising rates in 2022, the company's average interest rate on loans has increased to 3.4%.

Studentbostäder's interest-bearing debt is governed by financial covenants and financial policy targets (see Figure 14). Since it was founded in 2018, the company has adhered to its covenants. However, headroom is limited and diminishing as rising interest rates feed into the company's financial statements. As of 30 Sep. 2022, interest coverage according to covenant calculations was 2.3x compared with the 1.5x required. Covenant calculations exclude interest paid on shareholder loans and fees related to new borrowings. The metric improved significantly in the third quarter of 2022 following a

change in accounting policies in respect of capitalising interest costs in development projects. Nevertheless, we expect the covenant metric to decrease significantly over the next few quarters. In addition, we expect the difference between the company's covenant calculations and our calculation of interest coverage to decrease.

Studentbostäder targets 20% yearly growth in both profit from property management and net asset value per share. In the long term, Studentbostäder aims to pay dividends amounting to 50% of profit from property management. However, over the next few years, it intends to reinvest cash flows and pay low or no dividends to support growth. The company's long-term target is similar to those of many of its listed real-estate peers.

**Figure 14. Studentbostäder financial covenants, policies and reported metrics**

| Metric                  | Common loan covenants | Senior unsecured bond covenants | Financial policy/targets | Reported 30 Sep. 2022 |
|-------------------------|-----------------------|---------------------------------|--------------------------|-----------------------|
| Equity ratio            | ≥ 25%                 | ≥ 20%                           | ≥ 25%                    | 31.1%                 |
| Net LTV                 | ≤ 75%*                | n.a.                            | < 70%                    | 62.9%                 |
| Interest coverage ratio | ≥ 1.5x                | ≥ 1.5x                          | > 2.0x                   | 2.28x**               |

Source: company. n.a.–not applicable. \*Gross LTV. \*\*Covenant interest coverage excludes shareholder loan interest. As of 30 Sep. 2022, interest coverage as reported was 1.84x.

### ADJUSTMENT FACTORS

Adjustment factors negative

Adjustment factors are assessed as negative and have a one notch downward effect on our standalone credit assessment (see Peer calibration below).

#### Liquidity

Liquidity adequate

Our 12-month liquidity analysis is based on a stressed scenario in which the company cannot access the capital markets or extend bank loans, and therefore has to rely on internal or committed external funding sources to cover its liquidity needs.

Our analysis results in a SEK 119m deficit in the 12 months ending 30 Sep. 2023. Despite the company's relatively short history, we view its equity market listing, as well as the fact that a large proportion of maturing debt consists of construction loans with long-term financing agreements already in place, as mitigators of near-term liquidity risk. Our current assessment excludes the company's SEK 600m maturing bond in May 2024, which could have a material negative impact on liquidity.

We estimate the following primary funding sources for the 12 months ending 30 Sep. 2023, totalling SEK 2.0bn:

- SEK 229m in cash and equivalents, as of 30 Sep. 2022;
- SEK 31m from FFO, equalling 75% of estimated NCR-adjusted funds from operations over the period;
- SEK 71m in proceeds from borrowings from the end of the third quarter of 2022;
- SEK 870m in borrowings related to completed acquisitions and projects;
- SEK 818m in borrowings related to capital spending; and
- SEK 21m in net investment grants received in the period.

We estimate the following uses of funds for the 12 months ending 30 Sep. 2023, totalling SEK 2.2bn:

- SEK 486m in maturing debt and amortisation;
- SEK 740m in completed acquisitions; and
- SEK 934m in expected capital spending.

#### Environmental, social and governance factors

ESG factors adequate

Studentbostäder is relatively new to both environmental, social and governance (ESG) reporting and integrating ESG efforts into its operations. The company has identified several areas in which improvements could be made. The areas are split into initiatives targeting sustainable student accommodation and long-term social development.



In January 2023 Studentbostäder received its first environmental certification on a property comprising 208 apartments. The company aims for all new-built properties to fulfil the necessary requirements for certification. In this respect it targets energy usage at new-build properties at a maximum 56% of a requirement set by Sweden's National Board of Housing, Building and Planning. Studentbostäder aims to lower the water and energy usage of tenants by installation of monitoring systems, making tenants aware of their resource usage.

The main ESG issues that could affect our overall assessment of Studentbostäder's creditworthiness are factors that might contribute to loss of revenues, increased costs, higher capital spending, or worsened financing possibilities (see Figure 15).

**Figure 15. Studentbostäder ESG considerations**

| Issue  | Risk   | Mitigating efforts  | Result  |
|--|--|---|---|
| CO <sub>2</sub> emissions                          | Increased costs due to regulatory and/or taxation changes.   | Intentions to increase energy efficiency and reduce CO <sub>2</sub> emissions.  | Energy usage decreased by 4% in the third quarter of 2022, compared with a year earlier. CO <sub>2</sub> emissions (from energy usage in district heating) increased by 12% in the same period. |
| Impact of climate change on operations             | Loss of revenues or increased capital spending.  | Environmental certification of properties.  | One property with environmental certification. All new-built properties will fulfil requirements for certification.   |
| Increased environmental focus on financial markets | Adverse effect on financing possibilities or higher financing costs due to slow transitioning to lower CO <sub>2</sub> dependence. | Efforts to increase energy efficiency and reduce CO <sub>2</sub> emissions. Overall sustainability focus throughout operations. | Investor demand for green credentials is increasing. We view sustainability reporting and a focus on ESG issues as necessary to remain attractive to investors. We anticipate greater efforts.  |

Source: company.

**Peer calibration**

Peer calibration negative

According to our criteria, we can apply a 'peer calibration' factor when either a direct peer group comparison adjustment is needed or if uncertainties exist that could affect the rating either positively or negatively.

In this case, we have lowered our standalone credit assessment by one notch from our initial credit assessment to reflect an increased likelihood that Studentbostäder will breach one or more debt covenants on its outstanding debt, specifically a SEK 600m bond maturing in May 2024. Without mitigation action, we expect the company to breach a 1.5x interest-coverage covenant on the bond in late 2023, and a 20% equity ratio bond covenant in 2024. We also believe that the company's LTV covenants on its bank loans could come under pressure. Property value declines could have a significant adverse impact on the company's financial risk profile, but the timing and magnitude are uncertain due to a lack of transactions. Short-term liquidity risk is currently elevated, and we view the SEK 600m bond as a source of concern as the maturity date approaches.

**OWNERSHIP ANALYSIS**

Ownership neutral

Since 2020, Studentbostäder's common stock has been listed on the Nasdaq First North Premier Growth Market. The largest shareholder is Aktiebolaget Fastator (publ) (following the acquisition of shares from then subsidiary Offentliga Hus – one of the three founding companies) with 24.5% of the capital and votes as of 30 Sep. 2022. SBB's direct ownership in Studentbostäder had decreased to 1.7% as of 30 Sep. 2022. However, taking exposure through financial derivatives into account, SBB remains the third-largest shareholder. Since end-2021, Israel-based pension fund Otre Fund LP has been the second

largest shareholder with 21.4% of shares. As of 30 Sep. 2022, Studentbostäder held a total of SEK 199m in shareholder loans from SBB.

We assess Studentbostäder's overall ownership as neutral, although we take a positive view of the company's public listing, as it gives access to the equity market, enhancing its prospects of strengthening the balance sheet. The most recent equity injection was in July 2022, when the company's largest owners injected SEK 125m in new equity.

**Figure 16. Studentbostäder ownership structure, 30 Sep. 2022**

| Owner                                      | Share of capital and votes |
|--|----------------------------|
| Aktiebolaget Fastator AB (publ)            | 24.5%                      |
| Otre Fund LP                               | 21.4%                      |
| Samhällsbyggnadsbolaget i Norden AB (publ) | 13.9%                      |
| Svea Bank AB                               | 6.6%                       |
| Träbyn Invest AB                           | 3.2%                       |
| Lars Runby                                 | 1.7%                       |
| Avanza Pension                             | 1.6%                       |
| Familjen Kamprads stiftelse                | 0.9%                       |
| GADD & Cie S.A.                            | 0.8%                       |
| Henric Wiman                               | 0.8%                       |
| <b>Top 10 owners</b>                       | <b>75.3%</b>               |
| Other                                      | 24.7%                      |

Source: company.

## ISSUE RATINGS

We do not assign issue ratings to Studentbostäder's outstanding debt issues. In line with our methodology, we typically expect a higher loss given default for senior unsecured instruments when the proportion of secured debt is high. As of 30 Sep. 2022, 81% of the company's interest-bearing debt was secured, reducing recovery prospects for senior unsecured bondholders.

**Figure 17. Studentbostäder key financial data, 2018–Q3 2022**

| SEKm   | FY           | FY            | FY           | FY            | LTM          |
|--|--------------|---------------|--------------|---------------|--------------|
| Period-end   | 31 Dec. 2018 | 31 Dec. 2019  | 31 Dec. 2020 | 31 Dec. 2021  | 30 Sep. 2022 |
| <b>INCOME STATEMENT</b>  |              |               |              |               |              |
| Rental income  | 19           | 102           | 148          | 209           | 269          |
| Other income   | 0            | –             | 2            | 25            | 6            |
| Total costs from operations  | -11          | -49           | -75          | -103          | -117         |
| <b>Net operating income</b>  | <b>7</b>     | <b>53</b>     | <b>76</b>    | <b>131</b>    | <b>158</b>   |
| Administrative expenses  | -4           | -13           | -12          | -54           | -37          |
| Administrative expenses, project portfolio                                   | –            | –             | –            | –             | –            |
| <b>EBITDA</b>  | <b>3</b>     | <b>40</b>     | <b>64</b>    | <b>77</b>     | <b>121</b>   |
| Share of profit in associated companies and joint ventures                   | –            | –             | –            | –             | –            |
| Interest expenses  | -3           | -21           | -30          | -62           | -83          |
| Interest income  | 0            | 0             | –            | –             | 0            |
| Interest expenses, shareholder loans   | –            | –             | –            | –             | –            |
| Financial costs from leasing   | –            | –             | –            | -1            | -2           |
| Other financial costs  | –            | –             | –            | –             | –            |
| Changes in investment property   | –            | 75            | 88           | 203           | 165          |
| Gain (loss) on financial assets held at fair value                           | –            | –             | –            | –             | –            |
| Disposals of investment properties   | –            | –             | –            | –             | –            |
| Gain (loss) on derivatives   | –            | 0             | 0            | -1            | -0           |
| Depreciation and amortisation  | -0           | –             | -0           | –             | –            |
| Restructuring activities   | –            | –             | –            | –             | –            |
| Income (expense) on discontinued operations                                  | –            | –             | –            | –             | –            |
| <b>Pre-tax profit</b>  | <b>-0</b>    | <b>94</b>     | <b>122</b>   | <b>217</b>    | <b>207</b>   |
| Current taxes  | -1           | -4            | -6           | -0            | -0           |
| Deferred taxes   | 0            | -16           | -24          | -102          | -46          |
| <b>Net profit</b>  | <b>-1</b>    | <b>74</b>     | <b>91</b>    | <b>114</b>    | <b>161</b>   |
| <b>BALANCE SHEET</b>   |              |               |              |               |              |
| Investment property  | 894          | 2,091         | 3,563        | 5,636         | 6,425        |
| Other non-current assets   | 0            | 7             | 15           | 20            | 23           |
| <b>Total non-current assets</b>  | <b>895</b>   | <b>2,098</b>  | <b>3,579</b> | <b>5,655</b>  | <b>6,448</b> |
| Cash and cash equivalents  | 4            | 46            | 296          | 205           | 229          |
| Other current assets   | 26           | 10            | 46           | 75            | 163          |
| <b>Total current assets</b>  | <b>30</b>    | <b>56</b>     | <b>342</b>   | <b>280</b>    | <b>392</b>   |
| <b>Total assets</b>  | <b>925</b>   | <b>2,154</b>  | <b>3,921</b> | <b>5,935</b>  | <b>6,840</b> |
| <b>Total equity</b>  | <b>268</b>   | <b>571</b>    | <b>1,535</b> | <b>1,815</b>  | <b>2,124</b> |
| Non-current borrowings   | 465          | 1,293         | 1,914        | 3,074         | 3,548        |
| Non-current borrowings, shareholder loans                                    | 160          | 160           | 160          | 160           | 199          |
| Deferred tax liabilities   | –            | 16            | 41           | 144           | 185          |
| Other non-current liabilities  | –            | 58            | 11           | 12            | 15           |
| <b>Total non-current liabilities</b>   | <b>625</b>   | <b>1,527</b>  | <b>2,126</b> | <b>3,390</b>  | <b>3,948</b> |
| <b>Total current liabilities</b>   | <b>32</b>    | <b>55</b>     | <b>259</b>   | <b>730</b>    | <b>768</b>   |
| <b>Total equity and liabilities</b>  | <b>925</b>   | <b>2,154</b>  | <b>3,921</b> | <b>5,935</b>  | <b>6,840</b> |
| <b>CASH FLOW STATEMENT</b>   |              |               |              |               |              |
| Pre-tax profit   | -0           | 94            | 122          | 217           | 207          |
| ... of which changes in investment property                                  | –            | 75            | 88           | 203           | 165          |
| Depreciation and amortisation  | 0            | –             | 0            | 0             | 0            |
| Tax paid   | –            | –             | –            | -21           | -3           |
| Adjustment for items not in cash flow  | -1           | -72           | -95          | -207          | -167         |
| <b>Cash flow from operating activities before changes in working capital</b> | <b>-1</b>    | <b>22</b>     | <b>27</b>    | <b>-11</b>    | <b>37</b>    |
| Changes in working capital   | -3           | -0            | -6           | -14           | 7            |
| <b>Cash flow from operating activities</b>                                   | <b>-3</b>    | <b>22</b>     | <b>21</b>    | <b>-24</b>    | <b>44</b>    |
| <b>Cash flow from investment activities</b>                                  | <b>-894</b>  | <b>-1,122</b> | <b>-80</b>   | <b>-1,705</b> | <b>-904</b>  |
| <b>Cash flow from financing activities</b>                                   | <b>901</b>   | <b>1,109</b>  | <b>310</b>   | <b>1,638</b>  | <b>856</b>   |
| Cash and cash equivalents at beginning of period                             | –            | 4             | 46           | 296           | 226          |
| Cash flow for period   | 4            | 9             | 251          | -91           | -4           |
| <b>Cash and cash equivalents at end of period</b>                            | <b>4</b>     | <b>46</b>     | <b>296</b>   | <b>205</b>    | <b>229</b>   |

Source: company. FY–full year. LTM–last 12 months.

**Figure 18. Studentbostäder rating scorecard**

| <b>Subfactors</b>                         | <b>Impact</b> | <b>Score</b> |
|---|---------------|--------------|
| Operating environment                     | 20.0%         | bbb+         |
| Market position, size and diversification | 12.5%         | b+           |
| Portfolio assessment                      | 12.5%         | bb+          |
| Operating efficiency                      | 5.0%          | bb+          |
| <b>Business risk assessment</b>           | <b>50.0%</b>  | <b>bb+</b>   |
| Ratio analysis                            |               | b-           |
| Risk appetite                             |               | b-           |
| <b>Financial risk assessment</b>          | <b>50.0%</b>  | <b>b-</b>    |
| <b>Indicative credit assessment</b>       |               | <b>bb-</b>   |
| Liquidity                                 |               | Adequate     |
| ESG                                       |               | Adequate     |
| Peer comparisons                          |               | -1 notch     |
| <b>Stand-alone credit assessment</b>      |               | <b>b+</b>    |
| Support analysis                          |               | Neutral      |
| <b>Issuer rating</b>                      |               | <b>B+</b>    |
| Outlook                                   |               | Negative     |
| <b>Short-term rating</b>                  |               | <b>N5</b>    |

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